

China's SOE Innovation: COSCO Practice

Speech by Capt. Wei Jiafu, President & CEO of COSCO Group,
at the annual conference of BFA

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**Respected Vice-minister Wang Ruixiang, Mr. Parrett,
distinguished participants, ladies and gentlemen:**

Good morning.

It is indeed my great pleasure again to meet with all of you at this year's BFA annual conference. In my capacities as the President & CEO of COSCO Group and a director of the BFA board, I am pleased to see that this forum has been playing a vital role in promoting communications and cooperation not only within Asian countries, but also among Asian enterprises. I believe that today's session, *How SOEs Be Innovative or Entrepreneurial*, will be of great significance and guidance to the business developments of this region.

For a long time in Asia, there are many SOEs that play a crucial role in enhancing the national economic growth and undertaking social responsibilities of their respective countries. Like businesses of other ownerships, SOEs create wealth for our community while producing talented professionals and expertise and forming their own corporate cultures. Yet since the last decade of the 20th century, as the globalization of world economy and integration of global market proceeded, the growth of multinational corporations has made market competition even more challenging. Meanwhile, private companies have also grown robustly with the industrial restructuring and economy reform in many nations. These

have placed tremendous impacts on the growth of Asian SOEs.

In order to accommodate the request of changing market environments, most nations in Asia have implemented series of policies regarding SOEs reform, such as enlarging SOEs the rights of market operation, reforming operation mechanism, and etc. Take China for instance, since the implementation of reform and opening-up policy in 1978, Chinese government has kept carrying out SOE reforms for the purpose of a more effective combination between state ownership and market economy. Since 1993, the reform has highly focused on the system innovation of SOE reform, which incorporates the establishments of modern enterprise systems characterized by clear ownership structure and distinct responsibility system. It is widely recognized that over a decade Chinese SOEs have become key players in the market economy and have been able to equally participate in international competition with the advantages of independent decision making, self-responsibility for its profits or losses, self-developing and self-discipline. As a result, the management structure of China's SOEs has become more market-oriented.

Specialized core competitiveness has been highly required by Chinese SOEs in order to survive and grow in a fiercely competitive market. Even though SOEs enjoy their advantages in human resources and strategy management, it has been proved that competitiveness could not be fostered without continuous innovation, which may includes system innovation, management innovation and technology innovation. That is to say, Chinese SOEs need to improve their efficiency through technical innovations, and more importantly to improve their vitality and market competitiveness through management innovations.

Founded in 1961 with only four vessels of a total capacity of 22.6 thousand dwt, COSCO has now become the world's second largest and one of the most diversified shipping companies, owning and operating a fleet of over 650 vessels of over 38 million dwt. Over the past years, COSCO has been constantly operating and developing in both domestic and international market. With regards to our fleet expansion, we had been relying growth through bank loans, and have later been actively seeking a variety of capital channels to finance our new ships. By operating in the international market, COSCO has been always competing with international competitors on an equal ground. Therefore, as an SOE, COSCO has kept our status of being a market-oriented company. Especially since 1990's, COSCO has set up a mechanism of "state-ownership and market oriented operation". In the market economy environment, COSCO was approved to be a controlling company with investment-making rights. Under such a circumstance, one of the key driving forces for COSCO's growth is to undertake technology and management innovations in a systematic and consistent way.

With regards to the innovation of management mechanism, COSCO, at a very early stage, streamlined our internal management structure by setting up effective corporate governance structures that complies with market rules. On a basis of keeping the parent company's nature of being wholly state-owned, we encourage diversified ownership in our subsidiary companies. Ever since COSCO set up its first public listed company in Singapore in 1993, COSCO has held majority shares of several public listed companies both at home and abroad. Business management and assets operation are our "two-wheel driven" strategy. With the successful

implementation of such a strategy, COSCO has improved asset structure and facilitated efforts of setting up corporate governance by international standard. By realizing three maximums of operational profits, corporate value and shareholders return, COSCO's capital market strategies has helped expand the state-owned share of assets, giving a stronger control of state-ownership.

Regarding operation model, COSCO has adopted the strategic conversion from owning ships to controlling ships in order to break the traditional development path that's defined by the simple expansion of owned assets. By optimizing its strength, utilizing the external resources, COSCO has set up the "three in one" business mode that combines ship owners, ship charterer and ship brokers. Through such a business mode, COSCO strategically converted from owning ships to controlling ships, having strengthened the control of our assets and the operational capabilities of such assets. As a result, COSCO effectively benefited from the innovated mode of SOE's operation. Under this strategy, our fleet increased from 16.35 dwt in 1998 to today's 38 million dwt, climbing for more than 100%.

To integrate with international corporation management, COSCO has for many years made concrete steps on management system innovation. By doing so, we have been able to keep improving our efficiency, and to successfully transit from a pursuer of advanced system to a creator of such system. In recent year, COSCO has been issued with certificates of ISO Quality Management System, ISO Environment Management System, OHSAS Occupation Safety and Health Management System, and a framework of comprehensive risk management. As a member of United Nations Global Compact,

we comply with the principles of the Global Compact and its GRI initiative by sticking to a framework of corporate social responsibility under the Compact. With all this, an integrated modern enterprises system has been built to effectively enhance the management level and to lay a solid foundation for COSCO's long-term development.

On the other hand, COSCO gives full play to the effects of technology innovation on management innovations and the reproduction of management procedures, using IT and new technologies to motivate the innovative changes on management procedures. Since 1999, COSCO has adopted and improved the IRIS-II Information System and SAP finance system. Given the advantage of improved IT competence, COSCO was able to be included into the category of world class transportation service provider.

It is clear to conclude from COSCO's practice that SOEs are able to achieve growth through innovation like any businesses of other ownership as long as they access to market, build a system of "state ownership with market-oriented operation".

Innovation is endless. I believe in the future, more and more SOEs will embark the journey on comprehensive and sustainable innovation in order to rank themselves into the first class leading corporations, generating greater wealth for our global community.

Thank you all.